



Preview: FOMC Minutes due Wednesday July 3rd at 19:00BST/14:00EDT

The Minutes will be eyed to see the views on the FOMC about future rate cuts, the recent inflation progress /disinflation, as well as their views on the labour market.

JUNE MEETING: The Fed left rates on hold, as was widely expected, but the updated dot plots now signal only one rate cut in 2024 vs. three in the March projections, while money markets and analysts were looking for two rate cuts in 2024. Four policymakers even see no rate cuts this year, seven pencil in just one reduction, while eight expect there to be two rate cuts this year. Looking ahead, the 2025 median dot plot is at 4.1%, (prev. 3.9% in March), while the 2026 dot was unchanged at 3.1%, but the longer run rate ticked up again to 2.8% (prev. 2.6%). Elsewhere, headline and Core PCE projections were raised for 2024 and 2025, with 2026 unchanged. Unemployment was left unchanged at 4.0% for 2024 but was raised by 0.1% in both 2025 and 2026, to 4.2% and 4.1%, respectively. Real GDP growth forecasts were left unchanged throughout the horizon. The statement also saw very few changes, the only alteration was that it acknowledged "modest further progress" towards the 2% inflation objective has been seen, vs. the May statement noting a "lack of progress".

COMMENTARY: Recent Fed commentary has stressed a data-dependent approach with the Fed wanting to see more definite progress on inflation before they can be convinced inflation is returning to target in a sustainable way. Once they see this, they will be comfortable with endorsing rate cuts. Fed's Bostic had suggested that once the Fed is confident inflation will return to target, there will be a string of rate cuts and, in line with the median view, sees one rate cut in 2024 and four in 2025.

MINUTES: The Minutes will be eyed to see the views on the FOMC about future rate cuts, the recent inflation progress /disinflation, as well as their views on the labour market and its impact on for monetary policy. Powell on Tuesday at Sintra acknowledged the disinflation trend shows signs of resuming, and they are getting back on the disinflationary path. Something he did not mention in the June press conference, other than the May CPI data was welcome and they hope to see more like it, but it appears with the cool PPI and PCE data since then, he is more confident disinflation is resuming after a string of hot prints in Q1. The Minutes will only account for what was available at the time of the FOMC on 12th June, but we will be looking to see if others thought that disinflation had already resumed at that point. It will also be interesting to see the Fed's view on the labour market, given that Powell, and others, have stated that an unexpected deterioration in the labour market would also cause the Fed to react. Pantheon Macroeconomics write that they will be "looking to see how much weight FOMC members placed in their discussions on leading indicators pointing to a deteriorating labor market and on May's CPI data". Note, the Fed in May also announced a tapering of its balance sheet reduction to USD 25bln/mth from USD 60bln/mth. There was no adjustment to this in June, but since then, Fed's Mester (retired) has said that she would be open at some point to active sales of MBS, therefore any discussion around the Fed's balance sheet will also be of note.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.